Postal Disruption - where have all the letters gone?

Jacob Johnsen
POSTAL DISRUPTION

Where have all the letters gone?

Jacob Johnsen, CEO of ipostes.com, challenges our definitions of disruption and looks at the development of hybrid mail.
Why should posts concern themselves with the disruption caused by AirBnb, GoMore, Uber and others? Simply because disruption is not about technology, hardware and software. It is more about ideas, business, people and business models, to name just a few.

The virtual labourer

The wider use of technology means that society and companies are changing, and at a much faster pace than previously. Uber, GoMore and AirBnb are examples of new ways of doing things, based on the immediate access to technology. They not only have success with their users, they also gain support simply because they shake up traditional markets, rules and systems.

These ground breaking companies are seen as the technology based version of eBay competing against the analogue version of your local store. It is the kind of true competition and innovation that has brought us flights, cars and IT at a fraction of the cost compared to twenty or thirty years ago. The challenge is that the shared economy is a business model, not a society model.

The current technology evolution ideally means that manpower, information and money can move around at the speed of light within society. At its extreme, we have become a nation of virtual labourers. How will this affect the letter business?

Disruption is not increased competition

One should be careful not to label all evolution as disruption. The fact of introducing new solutions or of beating the competition is not disruption. Disruption is one of the great buzzwords, and it is often used in situations that have nothing to do with the word’s original meaning. In some cases, we see it used in circumstances where companies have simply been ousted in the traditional manner. It is obviously not a disruption when your local bakery is forced to close down because competition from a supermarket in-house bakery has become too fierce.

When in 1997 Harvard professor Clayton Christensen first described his disruption theory, he used it very specifically. In his book “The Innovators Dilemma - When New Technologies Cause Great Firms to Fail” he describes disruption as the process that takes place when established businesses are so focused on their existing business that they choose not to bet on emerging technologies.

Hybrid mail has evolved significantly, and more and more attributes are now applied to the printed letter.
This is because emerging technologies may not initially be able to satisfy the final needs of incumbent customers, and will often result in lower prices and thus provide lower returns than the well-established corporate cash cows. For example, a company like Kodak was clearly more interested in improving existing analogue photo technology than fully embracing digital cameras that were initially inferior to analogue photography and looked to be a less lucrative business.

The confusion about the disruption concept comes from a variety of situations that do not meet Christensen’s definition of disruption, but where the dynamics and effects are similar to disruption. Tesla’s electric cars or Apple’s iPhone are examples of products that have had an impact on the market, reminiscent of a disruption. But these do not represent a disruption in the word’s true sense. This is because Tesla and Apple produce expensive premium products, which address a market that is also lucrative for the well-established companies in the automotive and mobile phone industries. iPhones and Tesla’s electric cars have managed to shake large mature industries, but are nevertheless not disruptions.

**Hybrid mail disrupted letter making in the 1980s**

In the postal industry, hybrid mail emerged in the mid-1980s. Hybrid mail introduced the electronic letter as an integrated part of the postal distribution system, so that letters would enter electronically and be processed throughout the postal flow electronically, leaving only printing and delivery as physical. All other steps are digital: reception/collection, validation, count/weighing and accounting, sorting, transport and destination sorting. The only parts that have to be physical are the printing and the distribution.

This includes distributed printing, where printing is sorted and organised in order to align with distribution in the best possible way, with printing being done at the time of day most suited to the distribution schedule. Examples are Sweden Post, which used to accept data until 1 am and still ensure distribution on the same day in Stockholm, or La Poste which delivered Carte Bleu statements, the most common French credit card, to shops the day after transactions were made.

In order to do this, posts have sophisticated IT systems to receive data, manage the production of letters and the interface with production and accounting. The effects on the letter market are very positive, since it eases the production of letters for many corporate senders. Of course, the introduction of hybrid mail has been a severe blow to many print shops, both those competing on the open market and those inside corporations.

As hybrid mail spread to an increasing number of posts throughout the 1990s, it became clear that local postal players felt a tremendous impact. Existing print service providers had helped print letters, and they felt the stress that hotels nowadays get from AirBnb and cab drivers get from Uber. In USA the idea of the post offering printing was stopped by Congress. In Germany a clear division between letter printing and delivery services ensured that the cost of the stamp did not co-finance hybrid mail. Many posts placed their hybrid mail business in a separate entity, such as Portuguese CTT Correios which achieved huge success in both hybrid mail and in creating a strong IT division.

In many ways the introduction of hybrid mail was, and still is, a disruption in the market for letter production and letter delivery. By combining two important services, it has managed to take the making and delivery of letters to a new level. However, this evolution has also opened the door to another disruption that in the past decade has totally turned the postal market upside down.

**The disruption of document delivery**

Hybrid mail has evolved significantly, and more and more attributes are now applied to the printed letter. With much one to one marketing and messages, letters are designed individually, QR codes are added, and so are colours, graphs, specially shaped inserts, insertion of credit cards or smartcards, individually printed envelopes and much more. In many ways the letter has developed rather well in parallel with its electronic counterpart, the electronic message.

As electronic services became more widely used, electronic document presentation started to replace the good old physical letter. Invoices, statements, official documents and even letters were all offered...
digitally, and this has had an incredible impact on the letter business of many posts. The drop in letter volumes has been dramatic, to a point where it has threatened the posts’ business and their raison d’etre.

Hybrid mail was not the initiator of this evolution, but postal operators with a hybrid mail business have found themselves in a tremendously good position. However, they are also squeezed in between a rock and a hard place. On the one hand the letter printing business is decreasing, on the other hand the hybrid mail solution can easily be transformed to offer both physical and electronic delivery. The system already has all the letter information, so if recipients want the same document electronically, the hybrid mail service can create the electronic document and transfer it to an electronic delivery platform. However, in so doing, the post is cannibalising its core physical letter business.

Many posts have now entered the digital arena and are providing electronic delivery, certification services and identification of electronic users, helped by work done by the UPU and ETSI in this area. In many ways, this is the electronic version of what posts have been doing for centuries. However, by doing so, the posts are yet again effectively helping the disruption of document delivery, and many have had to quickly adapt their business models and organisation.

Of course, if the posts had not embraced these changes, others would have taken over. Today many posts are still hurt by the declining letter volumes, and only another disruption, the emergence of e-commerce, has ensured the prosperous survival of the postal business.

The next big wave in hybrid mail

One might think that hybrid mail has outlived its role and that from now on the world belongs to electronic document presentation, and to an ever growing e-commerce business. Not quite so. Clearly, there will be an ongoing need to deliver both printed and electronic documents in the foreseeable future, and most hybrid mail solutions are ideally suited to this.

For the printed letter there is an increasing requirement for flexibility, features, special options and low costs, and this is in many ways being met by the industry. Today you can print individual high quality letters in full colour at a speed of over 3,000 pages per minute and at a cost of only two to three cents per print. Machines may use one sheet to create the envelope, so that the outside and inside of the envelope are fully customised. Photos, coloured graphs and colouring are now a natural part of most printing processes, as they are for electronic documents.

Based on the letter data, the hybrid mail solution can create electronic documents including links, mouse-over texts, interactive content and more, and can transfer these to an electronic delivery platform. Many systems will even create a printed letter if the electronic letter is not opened or read within a predefined time period. Naturally, recipients can choose how to receive documents, and can alter their choices as they feel.

As hybrid mail solutions become more advanced, there is also a new wave of posts looking to the benefits of hybrid mail solutions. Especially in vast countries, the combination of physical and electronic delivery can bring huge benefits, and aid a post in meeting its universal service obligations. Some developing countries have a very basic traditional infrastructure but have a strong mobile network and widespread use of smartphones. Based on this, posts can provide physical letters via a network of printing sites, and do this in combination with the option of electronic delivery. Recipients can electronically receive either a notification about a letter that is on its way, or receive the document itself. Increasingly posts offer to scan physical mail and offer the recipient options to receive it, to have it scanned or to have it discarded.

Other postal operators are increasingly offering the delivery of physical and electronic documents with assurance of the authenticity of the sender, based on trust in the operator. A few have tried to ensure this delivery through a global network, but so far with a limited success. The amount of international document mail is limited, and even more so for hybrid mail, quite the opposite of e-commerce.